RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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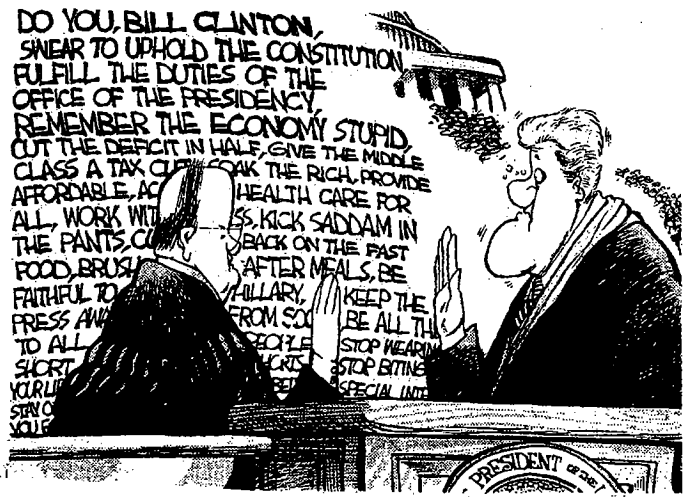
Feb. 3, 1993 **LETTER 1114**

1993: Is anyone able to read Bill Clinton's lips? Change, change, change, change, change, sacrifice, sacrifice, sacrifice, sacrifice, sacrifice! What changes? What sacrifices? More and more, it looks as though the changes will be more taxes -- probably an energy tax, higher taxes on the "rich" (maybe 38% on income over $200,000), no middle-class tax cut, very possibly higher estate taxes. As far as cutting government spending, it doesn't look like there'll be any dramatic changes here. Higher taxes will mean a sluggish economy, lower tax receipts to the Treasury, and as always -- bigger federal deficits.



Dale Stephanos
Boston Herald

THE MARKET: Here we are in 1993, and what've we got? We've got high volume and new highs in the NASDAQ. We have a new record high in the NYSE, and we have the S&P 500 flirting with its high. Wait, we also have the Dow bouncing around a bit, but still roughly 100 points under its 1992 high.

Friend John McGinley notes that "We may be in the midst of the first-ever speculative blow-off principally on the NASDAQ. In the past, they've been on the AMEX and the NYSE. While the NASDAQ A-D line is still below its 1992 high (is it only Intel?), volume is up there."

Some analysts are getting impatient with the reluctant Dow, and the calls are out to "dump IBM." Veteran subscribers may remember that for years the cry was, "Include IBM in the Dow," but now that IBM has fallen apart the new demand is, "Get rid of Big Blue and replace it with Microsoft."

How do I see the market picture? There are plenty of long-term danger signals present -- the overvaluation, the churning, the minuscule yields, the divergences, the concentration on selected issues (including low-priced stocks), the rumors, the sudden violent moves up or down in specific issues.

MARKET BEAT
TOM PETRUNO

Should IBM Be Booted Off the Dow Jones?

One by one, Dow Jones & Co. has pulled increasingly irrelevant companies out of its famed Dow industrial average.

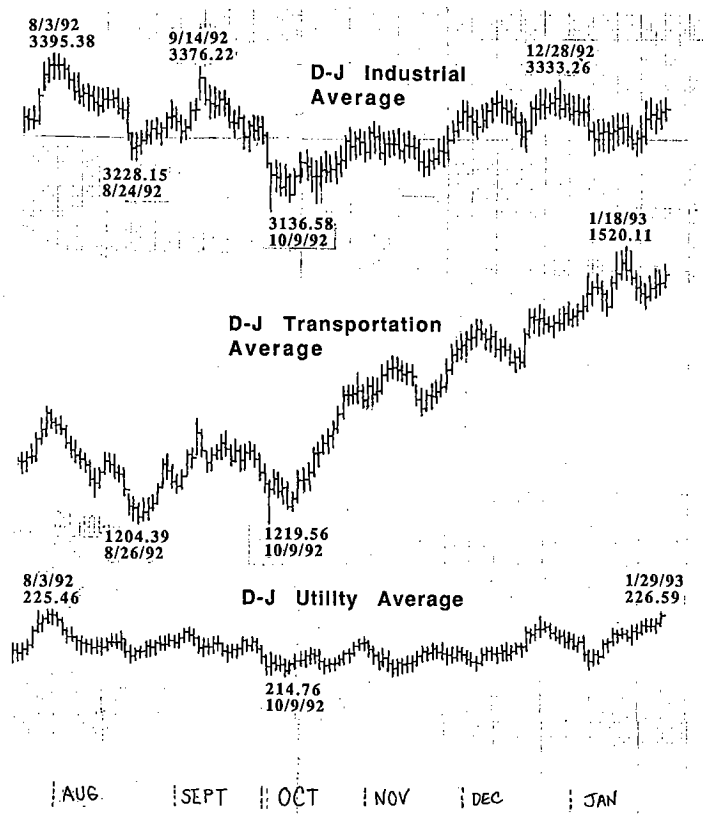
Jan. 22 DJIA 3256.81; PTI 3683; A-D Ratio -7.04
Jan. 29 DJIA 3310.03; PTI 3699; A-D Ratio -6.75
Dow Yield: 3.13%; Dow Price/Earnings: 33.5
Dow 200-day MA: 3298; Dow 30-day MA: 3285
Dow Times Book Value: 2.54; PTI 89-day MA: 3627
Percentage of Undervalued Blue-chips: 8%
Low Risk Buy Index: +93

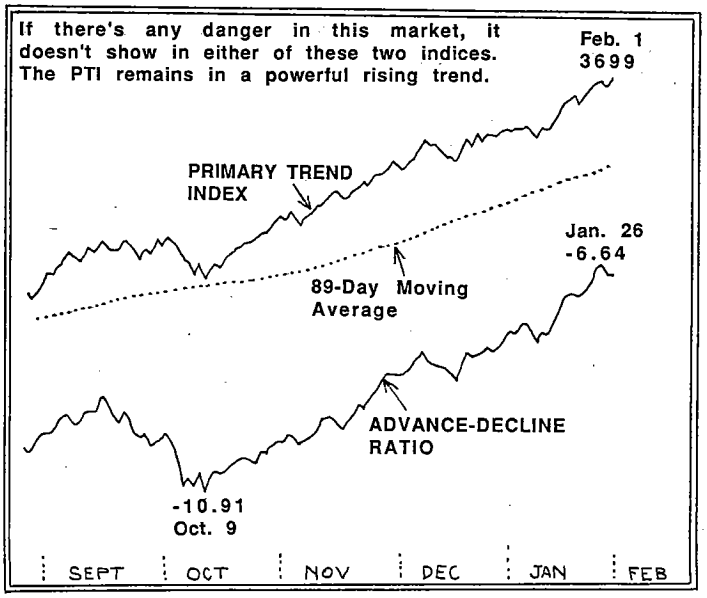
In the last Letter I went over the flawed picture in the D-J Averages, but the fact is that this market's had a head of steam on it. You can literally feel Wall Street's (or the public's) temperature rising.

In the meantime, my **Primary Trend Index** (PTI) doesn't appear to be worried (see page 2 chart). The PTI is at new record highs, and lately the up-move has accelerated. The advance-decline ratio has also pushed to new highs. The new highs in these two indices tells us that pressure continues to the upside, that values or no values, investors are swapping their cash for stock certificates at a furious rate. And there's no shortage of new arrivals and late-comers to the game.

WATCHING: Here are a few of the items I'm watching for (or expecting to see) in 1992:

(1) President Clinton will try to make a deal with the Fed whereby the government will spend an "extra" $20 billion or so and also raise taxes (an energy tax or a VAT tax plus a tax on the "rich"), and in return the Fed will agree to keep interest rates low and bank reserves plentiful.





(2) There's a good chance that income taxes will go up, but as far as anything serious being done on reducing government spending, I'm a lot more skeptical in this area. In his pre-presidential mode, Clinton promised to reduce his own huge White House staff by 25%. So far, not much has been done there, and this is as close to "home" as he can get.

(3) Clinton loves "input." He loves having endless varieties of people around, all giving him advice and suggestions. So in the end, nobody really knows what he thinks or which way he's going (maybe this will change with time). But Clinton doesn't want powerful people around him (good bye, Paul Volcker). Item: I hear that Al Gore is already complaining that he is being shuffled to the back room and out of sight.

(4) Clinton is going to be frustrated by the amount of time he has to spend on foreign policy. There's Iraq and Somalia and Yugoslavia and China and Russia and Haiti, each one a potentially explosive hot spot.

(5) For the first time in decades, a Democratic president and a Democratic Congress are in the power seats together. That's supposed to make it easy for Clinton to pass the bills he wants to pass. However, my feeling is that despite the power-concentration, Clinton is not going to have a smooth ride through Congress. Let's see how he does with the gays in the military issue.

(6) I think the stock market is going to be a major influence on Clinton and his policies. If the market continues to act well, Clinton will at least make a show of addressing the budget deficits. But if the market turns bearish (a bear market would throw the economy back into recession), then I think you can forget about anything being accomplished on the deficit. Therefore, I'll make this statement: a bear market in 1993 would be an unmitigated disaster for the nation and for the Clinton presidency.

(7) A great deal is being made of the inflation figures -- the government states that inflation is now running at a low 2.9%. I don't believe that figure for a second. Question: do you know anyone whose living expenses are less this year than they were last year? My opinion: I think inflation (i.e., real household expenses) is running nearer *Sindlinger's* figure of 10%.

(8) Because of the compounding effect, my bottom-line thinking is that there will be no serious reduction of the deficits, and this will begin to be reflected in the gold price. The US deficits (and I have written about this before) have literally taken on "a life of their own."

(9) There are times in history when people just get tired of thinking about problems; when they get tired of worrying and feeling gloomy. This is one of those times. But I think the euphoria is thin, very much on the surface. It will dissipate by year-end as reality sinks in.

(10) This is from Louis Rukeyser's Wall Street report: "The two surest predictions I can make for you are, (1) That the market will frighten you badly one of these days, and (2) that those who ride out the terror with solid investments will do infinitely better than those who run screaming to sell everything." Russell comment: This is a very interesting and significant quote, because I think it underscores the current attitude of extreme complacency. Consider this -- only five times in modern history has the yield on the S&P 500 been this low. Each time the low yield (overvaluation) period has given way to a bear market. But investors have now become conditioned to believe that any market reaction constitutes a major buying opportunity and that stocks not only should be held through all reactions but positions should be increased on any reaction. When the next bear market arrives, this attitude will be disastrous.

INVESTMENT POSITION: There are two stories in this market. One story is told pretty clearly on the page 2 chart of the PTI. Motto: "The PTI, it doesn't lie." And the PTI has been advancing to new highs. But a second story is told in the section on VALUES. Values don't lie either, but neither can values pinpoint an exact market top. Value studies can tell you when you're treading on thin ice, however. This market is treading on thin ice.

?

Meanwhile, bonds have been rallying, which means lower interest rates. Low interest rates, a whopping Federal deficit, a fat trade deficit -- the combination would be poison for any currency, and at this point the dollar's struggling.

These are not easy times, and the trick here is how not to lose money. One way is to avoid jumping in and out of your broker's latest suggestion. A second way of not losing money is to check your greed. A third way is to insist that you only buy value. A fourth way is never to run with the crowd.

A few final comments: The Benham European Government Bond Fund, it simply moves up or down with the D-mark. I'm holding some for diversification and an eventual major rise in the mark. Hong Kong stocks (which I also recommended): they're acting well, and I'm holding mine. The Hong Kong/China conflagration seems to be simmering down.

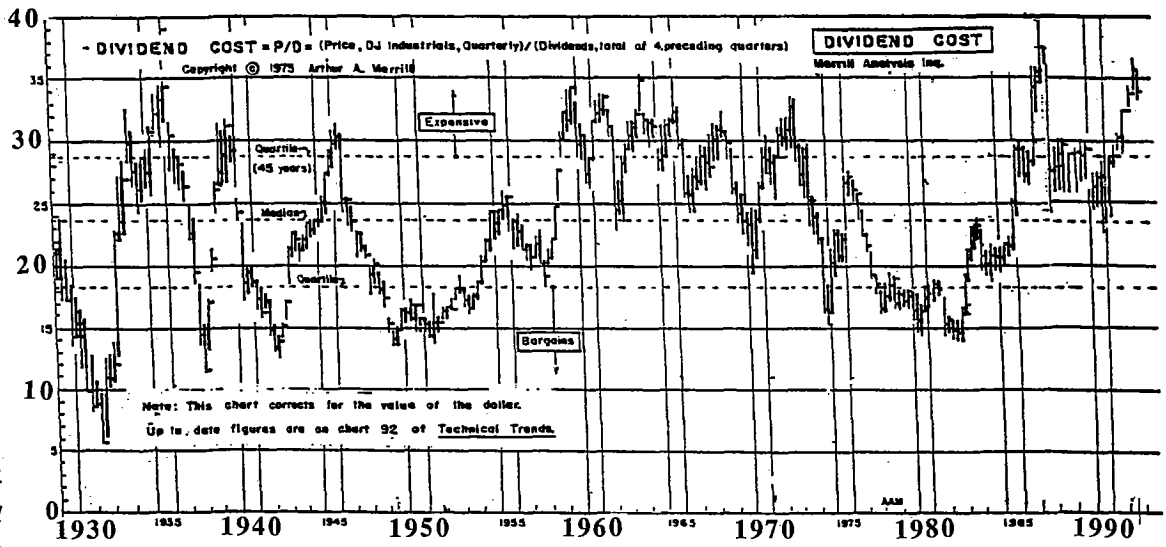
ON VALUES: As I've written many times, the single most important consideration for investors when dealing with the market is an understanding of values. "To know values," wrote Charles H. Dow, "is to know the meaning of the market."

Dow stressed dividends (i.e., the return on the investment) as the single best gauge of value. Earnings statements can be manipulated (they can be whatever your accountant says they are), book value can be open to question, but dividends are solid facts. And a stock's dividend record is a solid string of facts.

At any rate, a study of Dow or S&P dividends over the years represents an excellent test of value. And we do have dividend history. We know, for instance, that any time you can buy a dollar of Dow dividends for less than 15 dollars, the stock market is in the bargain basement. Conversely, we know that any time it costs 35 dollars or more to buy one dollar of Dow dividends, the stock market is expensive, very expensive.

Along these lines, last week I received a letter from one of the nation's premier technical analysts, Art Merrill, founder of *Merrill Analysis* (now known as *Technical Trends*). Art writes, "Your comments about the expensiveness of dividends struck a responsive chord. The enclosed chart has been one of my favorites.

I use it as a guide for the distribution of my portfolio between stocks and bonds; my percentage in equities is low when the curve is in the upper regions and high when the chart is in the depths. Keep up the good work, cheers, Art."



The chart (at right) is really self-explanatory. Please study it; it's one of the most valuable charts for investing you will ever deal with.

Speaking of values, I just received the latest issue of the excellent *Growth Fund Guide* (Box 6600, Rapid City, SD 57709). These people do a terrific job of research on dividends and value. And they concur with what I wrote above -- when the price-to-dividends ratio is above 35, the stock market is saying "danger." *Growth Fund Guide* lists the seven times "since 1870 when the price/dividend ratio reached the 35 area -- 1929, 1933, 1961, 1965, 1968, 1973, and 1987." They add, "In current DJIA terms, the highs reached on these seven occasions averaged 3421 and the lows, about 16 months later, averaged less than 2000."

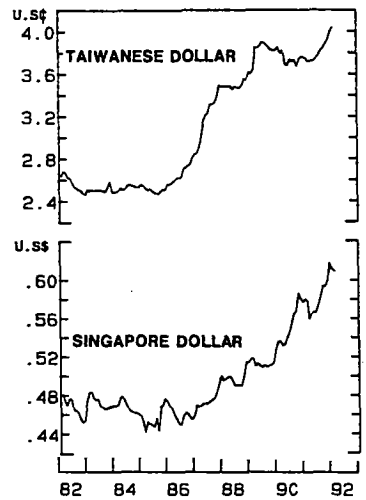
Growth Fund Guide's tell-tale statistical table is shown below. Study it well.

Last week I received a call from Steve Levingston -- he writes the daily market column in the third section of the *Wall Street Journal*. Steve asked me what the Dow Theory was saying. He said that he had spoken to a good many analysts, and there seemed to be a lot of confusion about the Dow Theory. I told him that I didn't doubt it, since not one in a thousand people have ever studied the Theory.

I told him that at this point, the Dow Theory is mostly concerned with VALUES. I also told him that I have been studying the markets since the 1940s, and I've never seen a system that can pinpoint a bull market top. However, extreme overvaluation (as is the case now) can tell you what phase you're in, and it can tell you when the yellow caution flag has turned to red. When you're paying more than $35 for a dollar of dividends, the red flags are flying. But what week or what day the ultimate top will be recorded is beyond the scope of Dow Theory or any other theory.

As far as an actual bear signal in the Averages is concerned (and this is what 95% of analysts zero in on), nothing in the Dow Theory suggests waiting for an actual bear signal. Such a signal would merely tell us that the top has passed. It's overvaluation that the Dow Theory is concentrating on, and any Dow Theorist worth his salt would have to be very cautious now. Remember, the market you're looking at is the most expensive market in history.

CURRENCIES: For the first time, the mavens are taking seriously the projections of the federal deficits, and what they see is ugly. In fact, it's so ugly that even the Harvard professors who have all along insisted that "Deficits don't matter" have shut up. My prediction -- from here on the deficit picture is going to enter into almost every decision Washington makes.



The US is the only nation in the world that can borrow in its own currency in the world market -- and then pay back in its own currency (and, of course, the US can "manufacture" all the dollars it needs). The problem, of course, is the value of the dollar against other currencies.

As this is written, the dollar is turning strong against the major hard currencies. What are the factors which dictate a currency's strength? (1) Whether the nation is stable and secure, politically and militarily. (2) A nation's savings rate. (3) A nation's economy -- is it strong, is it expanding? (4) Does the nation have a powerful and independent central bank? (5) The nation's inflation rate. (6) A nation's attitude towards inflation and its record on inflation. Note: Almost without exception, when a nation has a high savings rate its currency is strong, when a nation has a low savings rate, its currency is weak. Interestingly, Taiwan, with a very high savings rate (and the world's largest foreign reserves) has a very strong currency. Example: both the Taiwanese and Singapore dollar have moved up massively against the US dollar since 1985.

P/D RATIO READINGS ABOVE 34.72 SINCE 1871 AND FOLLOWING MARKET PERFORMANCE

		Move From 34.72 P/D Ratio To Stock Market High		S&P 500 Highs In Current	Move From Stock Market High to Low			S&P 500 Lows in Current
High	Date	Mos.	%	DJIA Terms	Mos.	%	Low P/D	DJIA Terms
34.72	9/1929	0	0	3309	33	-86.2	8.75	834
35.00	7/1933	0	0	3339	20	-33.9	22.17	2113
35.63	11/1961	2	+ 5.9	3396	6	-28.0	24.61	2345
34.81	10/1965	0	0	3318	8	-22.2	25.55	2432
35.21	11/1968	0	0	3356	18	-36.1	21.66	2065
37.73	1/1973	10	+12.2	3396	21	-48.2	16.52	1575
38.10	8/1987	1	+ 5.7	3631	4	-33.5	25.59	2439
Average		1.9	+ 3.4	3421	15.7	-41.2	20.69	1972

P/D High to Date: 35.22 on 12/18/92

NOTES & QUOTES: Ah, the massive inauguration celebration, what to think of it? Clearly, expectations are running high. Clinton was treated like "The Second Coming," which is really amazing since only six months ago he was widely labeled as "Slick Willy," a double-talker, a draft-dodger and womanizer, a man who was not to be trusted (remember that shadowy *Time* magazine cover?).

Opinions differ widely regarding the $25 million inauguration extravaganza. Some thought it was marvelous, a testament to democracy. Others thought otherwise. I thought it was interesting, colorful, a bit overdone. Clinton obviously made his point -- he loves ALL Americans, he's a down-to-earth man of the people, he's at home playing the sax with blacks and whites, and he's never met a hand he didn't want to shake.

But not everybody was happy with the festivities, as note this rather cruel quote by Fran Lebowitz, the famous photographer-writer (from the *NY Times)*: "If you're switching back and forth between the inaugural and the Iraq war, you think, where would you rather be less? And you find yourself thinking, well, it's not that bad in Baghdad. They didn't hit the targets. It's like having to watch 'Cats' for five days."

* *

Clinton stated that he wanted a cabinet "that looks like America." Well, of his 18 nominees, 13 (72%) were lawyers. So his cabinet looks like America, if you are willing to concede that of America's 268 million population, 192 million are lawyers.

* *

Times change: On January 11 Secretary General Butros of the UN demanded "Germany's full participation" in UN military operations. He called German participation "a must." Germany has long debated whether it wants any kind of military role for itself, either as an independent power or as a part of the UN military force. Germany anti-military? Have times ever changed.

* *

Meanwhile, in another part of the world, Shanghai is regaining its image as a great and flashy metropolis. Shanghai was once the Western gateway to China. It was the birthplace of the Chinese Communist Party. When the Communists took over Shanghai, opium dealers were executed and its capitalists lost their fortunes. The neon lights of "sin city" went out.

But here too, times have changed. Construction is going on at a furious pace in Shanghai, its stock market is booming, and foreign participation is eagerly sought to help raise the 135 square miles of Shanghai to its former glory. For the six-year period ending in 1996, a total of $14.5 billion will be spent to bring Shanghai back as probably the economic center-city of China.

* *

Investors appear to feel totally safe in mutual funds. A bit of history suggests that this may be misplaced hope. During the last true bear market, 1973-74, this is what happened to some of the leading mutual funds. Magellan lost 52% of its value, 20th Century Growth lost 53%, Nicholas Fund lost 69%, Templeton Growth lost 46%, Vanguard Windsor lost 58%, Janus Fund lost 37%.

All right, how about some of the great blue-chip stocks during 1973-74? Here's a sampling: Coca Cola lost 70% of its value, GE lost 60%, PepsiCo lost 67%, Philip Morris lost 50%, Disney lost 85%, Merck lost 53%, Exxon lost 46%.

* *

Speaking of losses, current losses in the world's most famous insurance company, Lloyd's of London, are catastrophic. The forecast is that Lloyd's will lose 2.5 billion pounds over the next two years. More than 10,000 "Names" or individual participants have left Lloyd's since 1990. Since Names are personally liable, personal fortunes have been lost, and many well-known Names are now bankrupt. The opinion was that Lloyd's has been selling policies too cheaply, that plus the many disasters that have hit insurers over the past few years.

* *

The other day I stopped at a book store to browse. I picked up a book on the Holocaust and started reading. I read through a whole chapter which described the mass murder of thousands of Jews, including vivid accounts from a very few people who had miraculously survived. Later when I thought about it, I was amazed to realize that my reaction to the accounts in the book were very different than my reactions years ago when I read about the Holocaust. My reaction today? Numbness. The brain goes numb.

* *

Ah, the things you learn in book stores. In the same store I picked up a new book, "Ellis Island" by Pamela Reeves. It's a fascinating volume, dealing with the millions of immigrants who came to America through Ellis Island in New York. This is what surprised me: the following famous Americans all came to this country prior to 1900 and via Ellis Island -- Bob Hope from England; Knute Rockne via Norway; Irving Berlin from Russia, Samuel Goldwyn from Russia, Edward G. Robinson from Romania, Frank Capra from Italy. The list is long, and gee, Knute Rockne, a football god, born in Norway, how could that be?

* *

I went to high school with the late Tony Pope. Many years ago Tony bought the *National Enquirer* for a song, built it up and ran its circulation up to where it now sells an astounding five million copies a week. More recently the *Enquirer* bought the *Star*. Yep, I read it or at least peruse it. I also read *Parade* every week, plus a number of other pop or trash sheets. But you do pick up some interesting facts. For instance, did you know that only two US presidents refused to take any salary? They were Herbert Hoover and John Kennedy. And did you know that in 1971 radio/TV star Larry King piled up gambling debts, was fired from his Miami radio station, and forced to declare bankruptcy? He never went to trial because the statute of limitations ran out. Facts like that, I must be kooky, but they interest me. One more -- the most expensive city in the US for a business traveler to spend time in is NYC at $297 a day. DC is second at $248 a day, Honolulu third at $238, Chicago fourth at $215, Boston fifth at $197. But in Macon, Georgia (where I spent a hellishly hot three months in infantry basic in 1942), it costs only $73 a day. But I warn you, don't go there during July and August.

* *

Dan Rostenkowski (D., Illinois) is the Dem's top tax guy. He charged taxpayers $68,250 to lease three cars that become his personal property over a five-year period, which is against House rules. C'mon, Bill Clinton, push for a law making Congressmen and Senator subject to the same laws we poor slobs have to live by. And when they cheat us, damn it, let's prosecute 'em.

The fact is, there is so much crime and violence today, so many murders, drive-by shootings, so much violence on TV and in the movies, that I have become sort of immune to violence, as I believe many people today have. I've seen violence on the streets of New York, I saw violence and death in WWII, I've seen the unforgettable horror of people crushed and burning in auto accidents, but the truth -- today's diet of almost unending violence deadens one's soul to the horrors of violence. I just saw a new movie entitled, "Trespass." The film contains so much violence that my reaction was that it was almost comic, a parody of life. And classic old movies like High Noon and Shane, which shocked us with their violent scenes, seem almost tame today.

* *

A few years back (when Julian Snyder retired) I took over his list of many thousands of subscribers. At the time I promised to keep his people (and mine) abreast of Julian's thinking. More recently the brilliant Mr. Snyder has started a private letter (PO Box 70, 7500 St. Moritz, Switzerland). Here are a few quotes from the letter I just received. *"What we are going to see is a continued stallout of the US and world economy where you can write your own scenario depending upon whether you are personally optimistic or pessimistic. We are in the midst of Kondratieff's 'secondary depression,' and we are walking along the edge of the deflationary precipice . . . The reality is that the dragging (debt) anchor won't let the economy expand, but the frightened Fed won't let it contract. But the weights of the debt anchor should pull us back into recession by the end of the year . . . Buy all kinds of long-term bonds, for safety, potential price appreciation and a relatively high rate of return. US bonds are OK, but I like Swiss and German bonds better. I also like the German stock market when the Bundesbank finally cuts interest rates . . . The dollar is*

in a long-term downtrend which will take it one-to-one against the Swiss franc long before the year 2000 . . . Gold should continue to be accumulated on a cash basis in small quantities as long as the price stays above $320. If it goes lower, just keep it for the great inflation day that's a-commin." That's the view from Julian Snyder in St. Moritz. And I always take Julian's views seriously.

* *

I'll admit it, I don't like Broadway musicals or most operas (and this is particularly true of Andrew Lloyd Webber musicals). But there is one exception. I love Gershwin's masterpiece opera, "Porgy and Bess." Recently an Englishman, Trevor Nunn, got permission from the Gershwin family to film the show. Nunn tried to produce it in Hollywood, where he was told it simply wasn't saleable. One executive told him why: "First off it's about black people, which means no white people will go to see it. Second, it was written by a white man, which means no black people will go to see it. Third, it's an opera, which means *no one* will go to see it." Undaunted, Nunn when to Europe, where he says he finally got money from Germany, France and Portugal. He's going to produce the movie with a budget "in excess of four million dollars." More power to him. It's a great show, with great music such as "Summertime" and "It Ain't Necessarily So." It's one I'll see.

* *

I suppose one of these days the capital gains tax in the US will be lowered. Here are what some other nations do about the tax. Germany -- no capital gains (CG) tax after six months holding. Hong Kong, Italy, S. Korea, Taiwan -- zero CG tax and zero holding period. Japan a 5% CG tax with no holding period. France a 16% CG tax, no holding period. UK 40% CG tax, no holding period. Canada 17.5% CG tax with no holding period. Note that Germany, Japan and Taiwan, all nations with very high savings rates, have low to no CG tax and zero holding period.

* *

Older subscribers know that I believe there's only one SURE way to wealth, and that way is (1) to save, (2) to buy safe interest or dividend bearing instruments, (3) to compound the income derived from those instruments, and (4) to stay out of debt. Last week a subscriber sent me this little saying, which I gather is some kind of motto of the Million Dollar Round Table. New and particularly young subscribers, PASTE THIS ON YOUR WALL.

MILLION DOLLAR ROUND TABLE

"Those who understand interest, earn it - those who don't understand it, pay it."

* *

When Yeltsin took over there were 100 rubles to the dollar. Since then the ruble has been collapsing as inflation has swept Russia. Since the beginning of 1993 the ruble has lost 20% of its value. The ruble rate is set twice weekly by the Moscow Interbank Currency Exchange and is determined partly by the demand for US dollars. Last week saw a disastrous ruble exchange of 500 rubles to the dollar, on the 500 psychological barrier. Prices in Russia have risen by 30% since the start of the year, 10% per week. Fighting inflation depends on a stable currency. I said a year ago that the ruble should be backed by Russian gold, but, I guess American advisors killed that idea. This gives you an idea of what happens when a government is totally out-of-control. Said Deputy Prime Minister Boris Fyordorov two weeks ago, "A strong ruble is the basis of everything." Then back it with gold, guys, or your "basis" is going to go down the drain.

* *

Jim Grant (*Grant's Interest Rate Observer,* 30 Wall St., NYC 10005 -- I love these easy addresses) is hopeful about silver. He notes that silver has never been cheaper, when compared with the number of ounces of silver required to buy a medium-priced US house. He quotes Paul Montgomery to the effect that silver has been subject to one of the three worst bear markets in commodity history. Sugar was in two of these: sugar collapsed 97% between 1920 and 1932, and again by 94% between 1980 and 1986. Between 1980 and 1991 silver lost 93% of its value. Historically, you can say that "they're giving silver away today." Does this mean that silver is a good buy today? I don't know. I've always said that I know more people who have lost more money in silver than in any other item. However, one of these days we're going to see a bull market in silver. And believe me, it will be a whopper.

* *

What's the largest industry in the US? Easy, the US government which now employs an unbelievable 18 million workers. In 1950 the average American family paid only 2% of its income to the Federal government. Now we pay 25% of our income to the government. And I ask myself, "Russell, what is the government doing for you that is worth over a third of my income?" Sadly, I can't come up with very much. And I'm sure I'm not the only one asking that question. Mr. Clinton wants the government to take a more active part in our lives. My only response is, "Help!"

* *

This from the Jan. 23 London *Economist:* "The greatest boom in history may be about to take place in China over the next five to ten years. This is why western companies are starting to flood into the country . . . A recent study by McKinsey, a management consultancy, reckons that average purchasing power in China is almost 30% higher than published figures. This gives China 60 million people with an annual income above the magic threshold of $1,000 -- the threshold for spending on non-necessities like color TVs and washing machines. The figure could well rise to 200 million by the year 2000."

* *

Who owns the huge $4 trillion US debt? Public agencies own $1 billion of it, principally retirement trusts for Social Security, federal employees and the military. Much of the trust money has been borrowed and spent by the government and IOUs have been left in their place. Of the remaining $3 trillion, most is owned by US individuals, institutions and banks. However, about $340 billion is owned by foreigners (individuals and institutions). The fastest-growing holders of US debt is the trusts.

* *

My brother-in-law is one of those rare people who absolutely loves his work (actually, he doesn't call it work, he calls it his passion). Lee makes movies, mostly documentaries for companies like Ford, Glaxo, IBM. He's been making movies ever since he got out of college in 1947. Last week I saw a fine film (shown on the A&E TV channel) which Lee wrote and directed. The subject -- the great violinist, musician, teacher and humanitarian, Isaac Stern. Stern was a violin genius who started playing at age nine. When he was 17 and had just finished a triumphant concert at Carnegie Hall, Leonard Bernstein took Isaac aside and said, "Isn't it great to be young and famous." And I thought, isn't it amazing when a person has so much talent that he doesn't even have to think about making a living. Stern just does what he loves most, makes music and teaches, and the money is secondary; it just keeps coming in.

I also thought, what different lives people lead. Here's a man, Isaac Stern, who's creating beauty, recording, giving concerts, making thousands of people happy. And in the same world other men are fighting senseless wars, committing crimes, killing each other, pushing dope. It's a strange, irrational world we live in, but the people with great talent are blessed. They seem to live in a different sphere, in a different place than the rest of us.

But then, the people who do anything outstandingly well fascinate me. When I take my motorcycle to San Diego Harley there's a mechanic there who is extraordinary. I watch him work, and I'm fascinated. He never went to mechanic's school, yet he has an instinct about machinery that is unerring. He takes junk spare parts and puts them together to make motorcycles. He can zero in on what's wrong with an engine the way a homing pigeon zeros in on his nesting place. Ah, talent.

* *

How does a CEO do when he's done a poor job, and he's booted out of his corporation? Not too bad, it seems. For instance, Paul Lego, departing CEO of Westinghouse. Lego will get a $770,000

pension, plus he has 700,000 stock options that allows him to buy the stock at $22.28 until the year 2001 (all he needs is a new CEO who can bring the company back to its old high of $39). As for former CEO John Akers of IBM, he has 95,562 stock options that allow him to buy the stock at $96.56 a share by the year 2000. When Akers retires he will also get a little pension of about $1.2 million a year. One thing is for sure, Akers is doing better than IBM.

* *

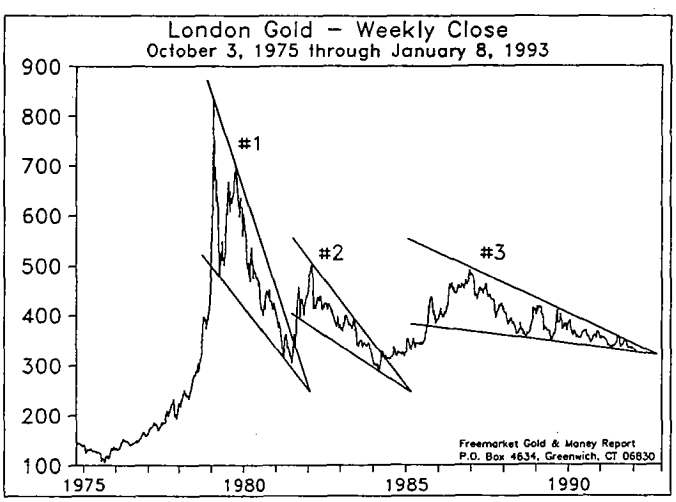
About the deficit: The hardest thing in the world is to find out what the real, honest to goodness federal deficit is. Here's the true answer, from a subscriber (*Gold Discipline Amendments,* PO Box 88, Broomfield, CO 80038). He checks the Fed "Flow of Funds" and finds that outstanding US government securities were $4.676 trillion for the third quarter, 1992. One year ago it was $4.206 trillion. Thus the government added **$469 billion** to its outstanding credit. So subscribers, that is the **REAL (horrific) FEDERAL DEFICIT** for the 12 months ending in the third quarter of 1992. You can see why they're worried. And I doubt that it's getting any better.

* *

I finally did it; I couldn't resist. With the Super Bowl only two hours away in Pasadena, I bought four tickets. On Saturday afternoon Faye, her sister Lynn, my son Ryan, and yours truly headed due north by car. Saturday night we stayed with my pregnant (five weeks to go) daughter, Betsy, in Sherman Oaks (that's part of LA). Next morning, Sunday, we headed for Pasadena and the Big Show.

We got to the Rose Bowl around 9:30AM, amid an ocean of cars crawling in at 3MPH. They were arriving from everywhere, helicopters, limos, busses, RVs, bikes. At the Bowl the commercialism was massive, everybody holding up signs to buy or sell tickets, hundreds of stands selling T-shirts, banners, pins, programs, pizza, hot dogs, you name it. Probably prophetic -- one Texan was barbecuing 25 pounds of buffalo meat that he had brought up with him from Dallas. Another rather drunk fellow in a Cowboy T-shirt was shouting, "Hey, since 1800 cowboys have been chasing buffaloes off the range." Boy, did they have it right. Prior to the Super Bowl the radio guys predicted that there was a good chance it would rain, and Buffalo had a fair chance of winning. Wrong. The weather was gorgeous, and Buffalo turned the ball over so often it was almost as if they were allergic to it. I don't think Buffalo (for a change) will be in next year's Super Bowl. But I wouldn't bet against the Cowboys. But "on any Sunday", etc., I've learned never to bet on football games.

GOLD: This is one of the most interesting charts I've seen on gold, the chart being courtesy of the "Freemarket Gold & Money Report" (PO Box 4634, Greenwich, CT 06830). What we see here is three large declining "wedge" patterns. A declining wedge usually denotes a situation where despite sliding prices, the supply is drying up. As the price action nears the apex of the wedge (due to diminished supply) the price breaks out of the pattern to the upside.



This is what occurred in wedge #1 and wedge #2. Wedge #3 has now formed, and we'll soon see whether there's a repeat (or "threepeat" as they say in football).

What could cause gold to rise? Supply and demand. The demand for gold for jewelry is now at its highest level in history, with much of this demand coming from Asia and more specifically China. Asians have always been savers and gold-philes, and they have a natural distrust of paper money.

LATE NOTES: What are the operative facts in this market? This is the way I see it:

(1) The yield on the S&P 500 Composite is 2.82%. That means that investors are paying $35.5 for each dollar of S&P earnings. In the past when stocks were priced at this rarefied level (and remember, every informed investor is well aware of this) a bear market has never been avoided.

(2) The stock market has been trading off steadily declining interest rates. In fact, T-bill rates are the lowest in 20 years. The US economy is now picking up. If so, then it is almost certain that interest rates have bottomed. However, it's interesting that Fed Chairman Greenspan (Jan. 28) following a meeting with Clinton indicated that he might be willing to drive short-term interest rates even lower if Clinton's budget-reducing plan is put into effect. Greenspan obviously is aware that an expanding economy will push rates up, and he wants to counter that process.

(3) We are dealing with the most expensive market in history. At this point the market is pressing against a wall of extreme overvaluation and an interest rate structure that is almost absurdly low. In the face of this we have a public that has been furiously buying mutual funds and secondary (NASDAQ) issues. As this is written, there seems to be a move out of some of the speculative secondary issues and back into the big Dow-type stocks. But I believe the Dow stocks are under distribution. This is evidenced by the fact that with all the massive NYSE volume, the Dow is still more than 100 points below its peak of seven months ago.

(4) The question -- has the market already discounted a rising US economy? A better question -- has the market (with dividend yields near record lows) already discounted THE BEST the lies ahead? If the economy is indeed expanding, can interest rates be held down?

(5) All the above has produced what I see as a "churning" market. Many speculative stocks are topping out, others are being switched, money is still going into investment-grade stocks, but somebody is also selling a lot of Dow-type stocks.

Russell Guess: Never has the market been scrutinized by so many smart investors and analysts. Never has information traveled so fast or been accessible to so many people. Therefore, my guess is that when this market finally does top out, there are NOT going to be any dramatic, easily identifiable "signals." I think one day we'll just look back and say, "Gee, I think that was the top last week -- funny I didn't catch it." In other words, I think the top is going to "sneak in" like a thief in the night.

Furthermore, when a bear market arrives I think it is going to be an eroding affair at first, as opposed to a dramatic collapse or crash. In that way, huge losses will pile up before people are really aware of what's happening (much the way IBM trapped tens of thousands of still-hoping stockholders on its way down).

Late note on the currencies: Over the weekend Ireland devalued the punt by 10%, throwing further doubts on the whole ERM. Speculators are looking at the French franc again. Meanwhile, the dollar ("safe haven") turns strong against all European currencies.

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